1:Stanford U. S-4, 5 1956 AF12 North China AF12

Annex "A," Subparagraph 3c,
Economic Background

BUDGET AND TAXATION

I. THE NATIONAL FISCAL SYSTEM

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Since Communist China is a unitary state, its fiscal policy is national in scope and has relatively few regional variations. Accordingly, unless otherwise indicated, what is said here of one region is often equally true of the other regions.

From the data shown in the tabulation below, certain facts are obvious.

1. During 1950-54, the revenue derived from the profit of government enterprise rose steadily from 12.76 per cent of the total government receipt in 1950 to 36.47 per cent in 1954. Moreover, profit is not the only contribution that government enterprises made to the government treasury. In the course of these years, they also contributed an increasingly large share of taxes which the People's Republic of China (the Communist government) imposed upon industries and trade. This tendency is clearly shown in the following statistics

U. Stanford 5-4,5 1956 AF12 North China AF12

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SOURCE OF GOVERNMENT RECEIPTS*

Year	Government-owned Enterprises	Government-participating Enterprises	Co-operatives (combined)		Farmers	Private Industries and Trade
1950	-	-	34.08	-	29.63	32.93
1951	-	-	49.35	-	18.17	28.66
1952	-	-	56.33	-	17.08	22.36
1953	-	-	59.79	-	14.56	17.02
1954	62.24	3.65		1.66	14.23	13.34
1955	69.47	3.65		1.98	11.76	10.70

* (In percentage of the total annual receipt of the current year.) Economic Weekly, Feb. 26, 1953, p. 17; People's Daily, June 18, 1954, July, 10, 1955. The figures for 1955 are budgetary estimates.

652 Unlike the usual concept used in Western countries, the profits of governmwnt-owned concerns and enterprises in which the government participates as listed in fiscal reports of the Communist government include allowances for depreciation of assets, which, according to the Western practice, should not be included in net profit. At the same time, all the outlays of government enterprises for improvement and replacement are listed as government expenditures for economic construction. The procedure used by the Chinese Communists means a substantial increase in both government receipts from its enterprises and outlays for economic construction.

2. During the five-year period ending 1954, the relative importance of the agricultural tax has been substantially reduced. In 1950, it accounted for 28. 01 per cent of the total government expenditure. In 1954, the percentage declined to 13.33 per cent. The decrease was due to the rapid expansion of receipts from other sources (particularly profits from government enterprises and urban taxes) rather than to the reduction in the agricultural tax itself. This development should be interpreted to mean that the tax on rural economy has not been reduced; it reflects merely that the increase of the agricultural tax has not been as rapid as the increase of other government receipts.

3. Similarly, the fact that the ratio of the

652 taxes on industry and trade to the total government expenditure remained almost constant during these years should not be interpreted to mean a constant tax burden imposed on these sectors of the Chinese economy. In absolute terms, their contributions have continually increased in order to meet the ever-expanding expenditure of the government.

As a whole, the fiscal policy of the Communist government has been more unfavorable to industry and trade than to agriculture. During the five-year period under consideration, private enterprise in industry and trade not only has had to bear a great burden of the increasing expenditure of the government, but also has been forced to accept stiff competition from government enterprises which, according to the Communist policy, will ultimately monopolize all the important trade and industries in the country.

On the expenditure side, military outlay constituted 41.5 per cent of total government expenditure in 1950 and 1951, respectively. After 1952, because of the truce in Korea, the relative importance of the military outlay has been substantially reduced. In 1954, it was only 21.1 per cent of the year's total expenditure. The outlay for economic construction has become the leading item on the debit side of the government account.

652 701 In making these comparisons, several observations should be noted. First, the

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701 military expenditures as listed in the records of the Communist government do not include salaries and maintenance of military personnel, which are classified as government administrative expenses. Military outlays listed in the budgets of the Nationalist Government, on the other hand, consisted mainly of such salary and maintenance payments. If the definition of military expenditure were broadened to include such outlays, and if one-half of the administrative expenses listed in the Communist budget were for the payment of military personnel and administration, then the military expenditure for the years 1950-52 of the Communist government would have been as tabulated here.

Year	Ratio of Military Expenditure to Total Government Expenditure
1950	51.11
1951	49.83
1952	32.15
1953	29.45 (budget estimate)
1954	30.06
1955	32.98 (budget estimate)

In the fiscal report for 1953 the military and government administration expenditures were lumped together under one item. It is rather difficult to separate the military from

652 701 the non-military outlays on the basis mentioned above. For this reason, the budgetary estimates, where these outlays were separately listed, were used in this tabulation.

A second point which should be noted concerning the military expenditure of the Communist government is that a part of its expenditure for economic construction might well be considered military rather than economic. In the budget of the Nationalist Government, for example, outlays for developing aircraft-manufacturing industries, ammunition industries, and so forth, were usually classified as military expenses, whereas they would probably be considered as economic outlay in the Communists' report.

A third point to be noted is that, if the depreciation charges and outlays for maintenance and replacement in government enterprises were excluded from government receipt and expenditure, as should normally be the case, the relative importance of military expenditure of the years under consideration would have been much greater than those shown in the fiscal reports.

652 Even allowing for these adjustments, the fact that government outlays for economic, social, and educational purposes has been substantially increased under the Communist

652 regime is obvious when compared with the conditions under the Nattionalist Government. Whether these expenditures have actually contributed to improving the economic and social welfare of the people is, of course, another question entirely.

EXPENDITURES AND RECEIPTS OF THE PEOPLE'S REPUBLIC OF CHINA*

	1950	1951	1952	1953	1954
Expenditure					
Military	41.50	42.52	26.23	-	24.19
Government administration	19.21	14.71	11.83	44.62	11.74
Other	2.64	2.01	3.49		
Economic construction	25.51	29.50	44.79	40.38	52.07
Cultural construction	11.11	11.26	13.66	15.00	12.00
Receipts					
Agricultural tax	28.01	18.24	15.69	14.90	13.33
Taxes on undustry and commerce	43.84	49.16	42.28	43.43	36.46
Receipts from government enterprises	12.76	25.64	28.55	35.40	40.49
Income from credit and insurance	4.87	4.79	1.53	3.00	1.26
Other	-	-	-	14.41	-

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1: Stanford U. S-4,5 1956 AF12 North China AF 12

* (In percentage of total government expenditure) Compiled on the basis of actual government outlays and receipts as given in fiscal reports of the People's Republic of China. Economic Weekly, Feb. 26, 1953, p. 17; People's Daily, June 18, 1954, July 10, 1955.

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1/ STANFORD U. S-4.5 R56 AF 12 NORTH CHINA AF 12

652 In the discussion that follows, we shall examine at length some phases of Communist China's fiscal policy during the first five years of occupation of Mainland China. They include the agricultural tax, the taxation on commerce and industry, and government bonds. As will be seen, the revenues discussed are all recurrent in nature. No attempt is made to study such non-recurrent levies as those imposed during the Five-Anti Campaign. Because of the nature of these impositions, it is not likely that these measures can be successfully used again in the near future.

II. URBAN TAXATION

651 In Communist China, the core of urban taxation has consisted of the business tax, the tax on business income, and the commodity taxes.

None of the trio is new in China. Under the Nationalist Government, the business tax was collected as a local tax, the tax on business income was a part of the income tax system, and the commodity tax constituted one of the main revenues of the Nationalist Government.

Under the Communist government, all these taxes were drastically reorganized, apparently under the influence of the Russian tax system. From 1949 to date, the system of

651 tion system. With the containment of inflation in China, these economist contend, there is little need for the collection-in-kind system to protect the revenue of the government and to ensure food supplies in the domestic market.[5]

5. Another important defect of the agricultural tax is its failure to allow for costs involved in various kinds of agricultural production. Under the present system, exemptions and allowances have been given only to the labor employed in such production, but they are not applicable to other costs of production. There is, for instance, no allowance for equipment, horses, or cows used in land cultivation, for chemical fertilizers, or for special irrigation required for certain types of agriculture. Consequently, the use of modern methods to improve agricultural production receives no encouragement, and their use is actually discriminated against by the tax. If the agricultural tax were really to serve as a tax on income, as has been often claimed, the levy would have to be on the net income rather than the gross receipt.

IV. GOVERNMENT BONDS

•652 Of 100 million fen (1 fen= US$0.75) of People's Victory Bonds issued in 1950, North China, consisting of five provinces and two

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5. Ibid., pp. 77-88.

652 municipalities, was allocated a total of 15 million fen.

The fact that, despite the importance of the industries and trade of the region, North China was allocated a quota of 15 million fen as against 45 million fen for East China and 30 million fen for Central-South China, may be interpreted as an indication of leniency in the government policy toward the northern provinces.

The distribution of the bond quota followed a pattern similar to that used in East China or Central-South China. A lion's share of the bonds was allocated to urban areas. Of the total quota of 15 million fen for the entire region, the municipalities of Tientsin and Peking, which are centers of economic and political activities, were responsible for 7.3 million fen and 17 million fen, respectively. That is to say, the contributions from these two municipalities accounted for 60 per cent of the quota for North China.

In these municipalities, the major part of the burden, as was the case in other regions, again fell upon private industrialists, traders, and, to a lesser extent, upon "rich" residents in urban areas. In mid-February 1950, about one month after the bond campaign began, the subscription in Tientsin had reached 7.5 million fen -- about 2 million more than the quota ori-

1: Stanford U. S-4, 5 1956 AF12 North China AF12

452 ginally allocated to the city.[6] Of this total subscription, 5.8 million fen (or 77.3 per cent) were from private traders and industries, whereas about 1.0 million fen (or 13.4 per cent) were from the "rich" residents in that urban area. While these percentages may not be as high as the corresponding percentages for Shanghai, the importance of the contribution of private trade, private industries, and "rich" residents toward the fulfillment of the city's quota is beyond dispute.

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6. Economic Weekly, Jan. 26, 1950, p. 12; March 2, 1950, p. 20.

453 pleted only a little more than one year after the the Central People's Government was established in Peking.

426 The pawnshop, a minor monetary organization had been a useful credit mechanism serving needy people. It appeared to be more useful in North China than in the south, because the poverty of the people was more pronounced in the north. The poor were more than willing to obtain funds from the pawnshops by paying high interest, at the rate of 3-4 per cent monthly. The working capital of the pawnshops was mainly supplied by the native banks; in small towns even the banks themselves operated pawnshops. The Communists not only prevented the native banks from extending credit to the pawnshops, but also required the latter to increase their capital; as a result, the pawnshops were forced out of business even before the native banks.

652 Development of the Communist monetary stru-
453 cture began with the birth of the People's Bank of China first established in Shihchiachuang, Hopei Province, on December 1, 1948. After the Communists assumed governmental function on October 1, 1949, the new banking system was set in motion. The People's Bank of China is now the supreme monetary agency, entrusted with the issuance of banknotes and having other undefined powers in monetary matters, including the control of private monetary organizations. Thus the Bank

652 of China, specializing in foreign exchange, and
453 the Bank of Communications, in financing industry, were both placed under the direction of the People's Bank after they were reorganized during 1949-50. This was followed by the establishment of the Chinese People's Construction Bank and of the Agricultural Bank of China. The structure was rounded out by the addition of the Chinese People's Insurance Company an instrument for the accumulation of long-term funds, and the Credit Co-operative a banking mechanism reaching the basic level. Existence of the joint public-private bank seems to be a fleeting phase; it is doomed to extinction as soon as private enterprise dies out.

All the named institutions operate under the control of the People's Bank of China.

II. THE PEOPLE'S BANK OF CHINA

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No regional office of the People's Bank had ever been established in North China, as it has been in other areas. However, a special organ called the North China Business Administration Bureau was established for the purpose of controlling the branch offices of this area. The branch office in the capital of each province is the highest agency in charge of governing the subordinate offices within the province. The branch office of Hopei Province is in Paoting and that of Shansi Province in Taiyuan. The Peking and Tientsin offices, although located in Hopei

652 Province, are virtually under the direct control of the head office because of their special importance and their proximity to the head office.

The branch offices are entrusted with the following functions;[2] (a) to adjust the circulation of currency; (b) to act as agents for the state treasury; (c) to accept current accounts and promote savings; (d) to extend credits to industry and commerce, both public and private, either directly or through affiliated banks; (e) to handle clearings of bills and transfers of accounts, and facilitate remittances; (f) to extend rural credits either through their own agencies or through co-operatives; (g) to look after receipts and disbursements of foreign exchange handled by affiliated banks; and (h) to handle any other monetary matters within their jurisdiction.

Each branch office has departments controlling currency, rural credits, credits to public and private enterprises, and also departments promoting savings deposts and the extension of credit co-operatives. Controlling of foreign exchange transactions is only done by the Peking and Tientsin offices.

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2. Kuo-min Ching-chi Shih-yung Tz'u-tien [Popular Dictionary of Practical Economics], Shanghai, Ch'un-ming Press, 1953, p. 8,013.

652 Under each branch office there are sub-branch offices in counties, cities, and thriving towns. Sub-branch offices located at key communication centers or points of political importance are designated as "central sub-branch offices"; they are entrusted with the duty of looking after a few sub-branch offices in their vicinity. The designation of central sub-branch office may be withdrawn whenever the special reasons for it cease to exist.

A layer of subordinate offices called agencies, sub-agencies, and stations is set up on main thoroughfares in big cities such as Peking and Tientsin, in villages, and within schools, factories, and on military posts. These offices handle deposits, remittances, and rural credits.

It is reported that in Hopei and Shansi provinces there are about 2,000 offices at all levels, including about 200 sub-branches and more than ten central sub-branches.

III. THE BANK OF CHINA

457 The Bank of China, established as a central bank in 1912, was reorganized in 1928 as a special institution for dealing with foreign trade. It had branches throughout the country, and 19 branches abroad. Its Tientsin branch office had developed into a strong organization, its standing and resources having surpassed other Chinese banks in North China. When on April 7, 1949, the Communist authority in Tientsin promulgated

1:Stanford U. S-4 5 1956 AF12 North China AF12

IV. BANK OF COMMUNICATIONS

462 The Bank of Communications was formed in 1907 for the purpose of promoting the development of communications and was reorganized in 1928 as a special institution to develop industries and internal trade. Sixty per cent of the capital was owned by the government at that time. When the Communists entered Tientsin, the branch in that city (the main office in North China) and branches in other cities were put under government supervision. Not until 1950, when the Communist government announced the appointment of directors representing government shares, and the recognitions of directors representing private shares, did the bank receive official recognition that it would continue in its old status. At that time, as well, the Vice-Minister of Finance was made the chairman of the board of the bank and a government appointee was made general manager. The People's Bank exercised control over the operations of the Bank of Communications as it did the operations of the Bank of China.

In June 1951, the Bank of Communications recommenced operations; it was entrusted with the following functions:[4] (a) the handling of government appropriations set aside for basic construction of the state and the screening and approval of applications for such construction needs; (b)

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4. Cheng Chu-yüan, Monetary Affairs of Communist China, Hong Kong, The Union Research Institute, 1954, p. 25.

652 the organization of long-term investment markets; (c) the control ofownership rights for public shares of enterprises operated by joint state-private interests; and the (d) handling of long-term credits.

652, 454 The Communist authorities had hoped that the Bank of Communications could be instrumental in absorbing the idle funds of the people for the purpose of channeling them into industries to be developed by the state. At one time the government had enthusiastically promoted the organization, in a few large cities, of investment companies with the co-operation of the Bank of Communications, but these plans ignored general poverty and the minimal amount of private capital. The failure of the attempted sale to the public of investment debentures of the Tientsin Investment Company in mid-1952 foretold the difficulty of organizing long-term investment market. Furthermore, the function of handling the appropriations for basic construction was later transferred to the newly established Chinese People's Construction Bank. Now the Bank of Communications handles long-term credits to joint public-private enterprises, but the necessary funds are supplied by the People's Bank.

652 Because the Communications Bank is authorized to handle the appropriations for basic construction and the long-term credits granted to joint public-private industries, it established a number of new branches at industrial sites. Apart from the head office at Peking, the main branches in Hopei Province are located at Tien-

1:Stanford U. S-4, 5 1956 AF12 North China AF12

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tsin, Paoting, Tangshan, Chinwangtao, T'ung-chou, Shihchiachuang, Kalgan, and Hsüan-hua; those in Shansi Province are loacted at Taiyuan, Ta-t'ung, Yü-tz'u, Ch'ang-chih, and P'u-ch'eng.

V. CHINESE PEOPLE'S CONSTRUCTION BANK

Since government appropriations for basic construction under the Five-Year Plan were increasing and better supervision and more efficient handling were necessary, the Chinese People's Construction Bank was created on October 5, 1954. Its head office is in Peking, and it is entrustd with the following specific functions:[5] (a) to look after the funds of basic construction projects, either as provided by appropriations from the budget or as raised by the projects themselves; (b) to supply short-term credits to the contracting organizations undertaking work for projects, according to the government's credit plan; (c) to settle accounts and make returns in connection with the government's appropriations for the projects; and (d) to supervise the use of funds appropriated or raised, the arrangement of payment between the projects and contracting organizations, and matters related to finance, cost accounting, and investment of the projects.

All these functions bear only an indirect relationship to ordinary banking business; the bank,

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5. New China News Agency, Peking, Sept. 13, 1954.

652 accordingly, is little more than a department of the People's Bank of China. This fact was further evidenced by a statement to the effect that head office and branches had already been established, issued by the government on the day the Chinese People's Construction Bank was inaugurated. Indeed, branches were in existence at all places where there was state industry or basic construction. This overnight creation was made possible by using space in the Bank of Communications and the People's Bank of China as offices for the newly created bank and by transferring personnel from the Bank of Communications and the People's Bank to the Chinese People's Construction Bank.

VI. AGRICULTURAL BANK OF CHINA

In May 1951, during a conference on national rural finance called by the People's Bank of China, it was decided to create an agricultural co-operative bank of nationwide scope for the handling of rural finance. However, the project was shelved because the establishment of a new bank might interfere with the extension of branches of the People's Bank in rural areas. The Agricultural Bank of China was established on March 25, 1955, as part of an ambitious plan to expand the credit co-operatives. It was placed under the direction of the People's Bank and authorized to perform the following functions:[6] (a) the extension

6. New China News Agency, Peking, March 25, 1954.

652 of long-term and short-term credits to jointly operated agricultural, stock-raising, fishery, mutual-aid, and co-operative organizations, as well as to individual producers; (b) the disposal of capital investments allocated in the state budget for agriculture, forestry, and water conservation; (c) the supervision of the people's credit co-operative organizations; and (d) the provision of savings deposit services for rural residents, producers, mutual-aid and co-operative organizations, collective farms, and state agriculture and water conservation agencies.

According to an official announcement, the function of handling capital investment appropriated in the state budget will be conducted by the People's Bank. The little news published concerning the installation of branches of the Agricultural Bank indicates that banking business in rural areas is still handled by the subordinate offices of the People's Bank, and that the new bank at present is engaged in the promotion of the extension of credit co-operatives and the supervision of rural credits.

VII. JOINT STATE-PRIVATE BANKS

453 652 There were 16 commercial banks in Tientsin when the Communists took over Tientsin and Peking; 15 of these were branches of banks with head offices in Shanghai, and only one had its head office in Tientsin. These banks had sub-

652 branches or agencies in Peking. Toward the end
453 of 1951, ten banks were converted into joint public-private enterprises and the others were eliminated for various reasons. Thus all commercial banking in North China came under government control. In 1952, all banks in Shanghai were merged into one, and their branches in Tientsin and Peking were amalgamated. The newly formed branches became branches of the Joint State-Private Bank. This bank was not permitted to open any new offices in North China, and its head office was transferred from Shanghai to Peking in 1953. The bank is entrusted with the following functions: (a) the handling of accounts of private enterprises; (b) the extension of short-term credits to private enterprises, subject to the advice of the People's Bank; (c) the handling of overseas Chinese remittances through the branches of component banks still operating in Hong Kong for the account of the Bank of China; the handling of inland remittances; and (d) the acceptance of savings deposits for the account of the People's Bank.

The Communists' scornful opinion of the private banks was illustrated during the merger by the installation of a new board of directors and the appointment of representatives of the People's Bank to all key positions. The appointment of 103 directors to the board is far out of proportion to the limited scope of business of the bank and its fourteen branches. The offices of chairman

of the board and chief manager of the joint-management are occupied by the assistant managing director and by the manager of the Shanghai branch of the People's Bank, respectively; the representatives of the private banks are only assistant managers. The manager of the former Tientsin branch of the Shanghai Commercial and Savings Bank is the only northern banker among the seven assistant managers.

VIII. CREDIT CO-OPERATIVES

In North China the development of credit co-operatives began under the Communist regime. The conquest of the China Mainland progressed from the north through sections of Shansi Province where credit co-operatives are now used extensively. At the end of June 1953, the two provinces of North China had 2,303 credit co-operatives;[7] the five provinces of Central-South China had only 3,585 credit co-operatives. In absolute numbers, North China had 33.5 per cent and Central-South China 56.5 per cent of China's credit co-operatives. The number of credit co-operatives in Shansi Province far surpassed the number in Hopei Province. In terms of credit co-operatives Shansi Province holds a leading position in the race with Kiangsi Province in Central-South China, the stronghold of the Chinese Soviet during 1930 and 1934.

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7. Ta-kung Pao [Ta-kung Daily] , Tientsin, January 22, 1954.

456 livestock insurance was revived, with the further development of producer co-operatives. However, because China's rural areas are so extensive, livestock insurance is only feasible in certain key districts. Crop insurance, for the moment, is only available for cotton.

Insurance business abroad is handled by the China Insurance Company, a subsidiary of the Bank of China. Its branches abroad are located wherever there is a Bank of China, but its operations within China have been discontinued.

X. BANKING OPERATIONS

•652 The People's Bank of China and other banking and financial institutions operate as a single body. Business operations have been expanded as government control over monetary affairs increased in both the public and the private sectors of the National economy.

The People's Bank of China began operations by issuing banknotes to provide funds for government administration and public and private enterprises, the handling of foreign exchange, and the control of private banking and financial institutions. Control was next extended to include cash funds held by and credit granted to public organizations and enterprises, and the transfer of accounts and payments on their behalf. Operations were further expanded to include the supervision of capital construction investments, the promotion of economic accounting systems in both public and

652 private enterprises, and the attraction of surplus funds. Although the operations of these various financial institutions may vary, they have a single purpose: to draw all cash into the banks in order to assure centralized capital for the creation of a socialist economy.

XI. CASH CONTROL

Cash control measures were first applied to public organizations and enterprises and later extended to private enterprises and individuals. According to a directive issued in March 1950, all public-operated enterprises, co-operatives, and armed forces must deposit all but a small amount of their cash and drafts in the local offices of the People's Bank or its authorized agencies. No disbursements made by them, with the exception of salaries and wages and payments for native products in rural areas, may be in cash. After June 1951, all persons engaged in business must deposit daily proceeds in the bank; all shops must meet their purchase payments with checks and under no circumstances may cash be used. The checks received on goods sold must be deposited in the bank; under no circumstances may these checks be used to buy goods. All persons in possession of cash exceeding PB$2,000,000 (about US$80) must deposit their excess holdings in the bank.

Cash Control was further tightened in 1952 by making the use of checks compulsory in tran-

652 sactions exceeding PB$100,000 (about US$4).[10]

The People's Bank implemented control by introducing various kinds of checks and varied forms for the transfer of accounts in order to channel the transfer of accounts and payments through the bank and to facilitate remittance fees. The bank pays a lucrative rate of interest on current deposit accounts -- a higher rate to private enterprises than to public enterprises.

According to statistics from a Communist source, total deposits during 1954 in Peking, Tientsin, Shanghai, and Canton amounted to PB$590 billion (about US$212 million), the largest portion of which was in fixed deposits.[11]

In order to attract scattered funds, the People's Bank made a determined effort to promote savings deposits. For this purpose many agencies, sub-agencies, and stations were established in cities, towns, and villages and within factories, schools, and the armed forces. Bank officials and Party cadres in some districts went so far as to fix the quota for each village subscription to savings. In certain districts in Hopei Province, for example, the villagers were divided into five categories; in one village the quota for each male laborer was

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10. Monetary Affairs of Communist China, 1954.

11. Economic Bulletin, No. 49, Hong Kong, Nov. 29, 1954.

652 PB$20,000 (less than one U.S. dollar), and for each female laborer, PB$10,000 [12] (less than fifty cents).

At the end of the third quarter of 1953, the amount of savings deposits in the Peking Branch of the People's Bank was approximately twelve times that of 1949, deposits in the Tientsin Branch[13] were 73 times larger than those of 1949, and total savings deposits[14] in the bank increased 131 times during the same period, to PB$1,320 billion (about US$52,800,000).

When the policy of "compulsory purchase" of grains and cotton from the peasants was enforced toward the end of 1953, so-called "special savings deposits for the sales proceeds of grains and cotton" were created by the People's Bank. An extraordinarily high interest rate was paid, ranging from 14.4 per cent annually for periods of one to three months to 18 per cent annually for periods of four to six months. But these efforts had little success: after the autumn harvest of 1954, only 10 per cent of the proceeds from sales were deposited in banks in Hopei Province.[15]

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12. Ta-kung Daily, March 24, 1953.
13. Economic Bulletin, No. 46, Hong Kong, Dec. 1, 1953.
14. Ta-kung Daily, March 3, 1955.
15. Ta-kung Daily, Jan. 3 1955.

652 and far less than this amount was deposited in Shansi Province. Later, as a result of a vigorous drive to increase the number of credit co-operatives, the peasants were forced to put additional money into savings accounts.

XII. CREDIT CONTROLS

652 452 Before 1953, all credits for public and joint state-private enterprises and co-operatives had to be approved by the head office of the People's Bank; applications for credits for private enterprises were submitted to affiliated banks, screened by the People's Bank regional office, and approved by the head office. It was an airtight, centralized means of credit control.

Early in 1953, a decentralization policy was adopted by which authority and responsibility was diverted to the branch offices. To obtain credit, enterprises were required to explain how they intended to increase production and how they would increase labor productivity and lower the cost of production; they also had to furnish a budget with an estimate of necessary credits. A sharp distinction was drawn between fixed capital and working capital and between working capital and any sums borrowed.

The extension and acceptance of credit between public enterprises and private firms were prohibited in order to eliminate commercial credit. Credit was further tightened by a resolution against credit arrangements between public

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industrial and trading enterprises approved at a conference[16] held by the People's Bank for all public enterprises in March 1955. Elimination of private banking and the prohibition of credit arrangements with public enterprises deprived firms of all other sources of credit supply and made them entirely dependent on government banks for their credit needs.

Rural credit is under the control of the government. The supply of credit comes from the People's Bank and from credit co-operatives which are under the control of the People's Bank. No "rich peasant" can afford to have surplus funds on loan nor dare he make such loans without incurring penalties. Credit was granted less to help peasants solve their financial difficulties than to encourage them to join the producer co-operatives or mutual-aid teams. The Communists report that in 1953, approximately 72 per cent of rural credits went to producer co-operatives and mutual-aid teams and only 28 per cent to individuals. The government announced in mid-1955 that more credits were to be given to the peasants in order to make it possible for them to join agricultural producer co-operatives. Shansi Province reported in 1954 more rural credits derived from credit co-operatives than from state banks. In 79 per cent of the villages in Shansi Province "usury has been basically eliminated."[17]

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16. Ta-kung Daily, May 7, 1955.

17. New China News Agency, Taiyuan, January 15, 1955.

1:Stanford U. S-4, 5 1956 AF12 North China AF12

652 In order to hasten the liquidation of the private
452 merchant class and the transformation of private industries into joint public-private enterprises, exorbitant rates of interest were charged on loans to private commerce and industry (private commerce, 16.20 - 23.40 per cent annually against 8.28 per cent charged on loans to public commerce, and 10.80 - 19.80 per cent annually charged on loans to private industry compared with 5.58 per cent to public industry.).

XIII. CURRENCY SYSTEM

652 Jen-min-p'iao, (literally "People's Bank
436 notes") were first issued by the People's Bank of China in Shihchiachuang, Hopei Province, on December 1, 1948. People's notes were to be regarded as the only legal tender in Communist China and were to supplant the Communist notes, which had been issued in various districts, as well as Nationalist notes. The People's Bank notes were first issued in denominations of 1, 5, 10, 20, 50 and 100 dollars to which 200 dollar notes were added in Shanghai in July 1949 and 500 and 1,000 dollar notes in Shanghai and Tientsin in September 1949. Between February and April 1950, an additional issue of 5,000 and 10,000 dollar notes was made and in January 1954 the range of denominations was increased to include 20,000 and 50,000 dollar notes.

On March 1, 1955 new currency was put in circulation throughout China. A new one-yuan

652 436 note was exchanged for a 10,000-yuan banknote of the old currency. Other major note denominations are Y2, Y3 Y5, and Y10. The smaller denominations are 1 2 and 5 fen (100 fen=1 yuan and 1, 2, and 5 chiao (10 chiao=1 yuan). Notes are printed in four languages: Chinese Tibetan, Mongolian, and Uighur. All the old banknotes in denominations of 5,000 or more were to be exchanged by the People's Bank of China before the end of April 1955 and denomination of 5,000 and less were to be exchanged not later than June 10, 1955.

The Communists first claimed that People's Bank notes were not backed by metallic or foreign currency reserves but by an abundant guarantee in goods; later they elaborated their monetary policy by saying that currency value was maintained by a balanced budget and balanced international payments. However, when introducing the recent issue of new currency, the Communists claimed that the stability of their currency was guaranteed by a huge and ever-increasing gold reserve as well as by ample material resources.[18] The Communists who realize the danger of arousing suspicion of bankruptcy, boast of their skill in the management of currency in order to dispel the popular distrust of currency revaluation.

652 The first official exchange rate quoted on April 7, 1949 by the Bank of China, Peking, was PB$56.25 for HK$1 (Hong Kong dollar), equivalent to PB$302 for US$1. Frequent revisions of the

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18. Far Eastern Economic Review, Hong Kong Mar. 10 1955.

652 rate were made following the trend of the market From May 1951 little changes were made and the rate became almost nominal. Before the issue of new currency the rate was PB$4.270 for HK$1, the equivalent of PB$26.321 for US$1. The rate for Hong Kong currency is PB$42.70 for HK$100. It is generally admitted that People's Bank notes are a domestic currency and the exchange rate does not reflect the foreign value.

XIV. CURRENCY CONTROL

At a meeting of the National People's Congress on July 6, 1955 the Minister of Finance reported that the issue of the new currency caused no loss to the people and did not affect commodity prices; he used these assertions to claim the stability of the new currency. This statement was supported by an announcement[19] of the State Statistical Bureau in Peking that, in eight major cities including Peking and Tientsin, the index figure of retail prices was 100.4 per cent that of 1953. It is evident that the revaluation of currency has been a most ruthless way of controlling the amount of currency in circulation. It prevented the conversion of cash into goods and forced hoarded cash into bank deposits. When such tactics are used, the price index is certain to remain stable.

In spite of its complete control of essential commodities and banking credit and its frequent

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19. Current Background, No. 336, Hong Kong, American Consulate General June 14 1955.

652 use of extortion, the Communist regime was forc to adopt drastic measures to control Chinese currency. Newspaper reports[20] indicate that in Hopei and Shansi provinces those people who took old notes to the government banks to exchange for the new were required to fill in forms giving their name occupation and address. Others attempted to convert their old nots into goods although prices quoted in theold currency were higher than those in the new currency. This example will serve to suggest how desperately the Party cadres worked to gain control of private savings and how distrustfully the people looked upon the new currency.

454 652 Before taking this drastic step, the regime called upon the people to subscribe to government bonds and to make other contributions. Of 1950 Victory Bonds, amounting to US$70 million, some 15 per cent was allocated to North China. In 1951, the people were expected to donate funds to buy weapons and ammunition for the troops in Korea. The North China Region was to contribute 13.60 per cent of a total equivalent to US$220 million.[22] In addition, contributions for the Resist-America-Aid-Korea Movement were demanded between November 1950 and January

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20. Far Eastern Economic Review, No. 15, Oct. 13, 1955.

21. Hsin Chung-kuo Ta-shih Chi-k'an [New China Events Quarterly] , No. 1 Peking 1950.

22. Cheng Chu-yüan Chung-kung Ts'ai-cheng Chieh-p'ou [An Analysis of Finance in Communist China] , Hong Kong, Asia Press 1953.

1:Stanford U. S-4, 5 1956 AF12 North China AF12

454 652 1952 -- a total of 13.28 per cent of US$ 8 million. No exact estimate of the fines collected in North China during the Three-Anti and Five-Anti campaigns are available but it must have been a considerable amount. In Peking and Tientsin the equivalent of approximately US$300 million was collected.[24] The subscription of 1954 National Economic Construction Bonds allocated to North China was about 22 per cent of the total issue equivalent to US$250 million, of which Tientsin alone subscribed more than 30 per cent.[25] This was followed by a 1955 issue of a similar amount. North China was probably required to subscribe to the same percentage as in the previous issue.

North China lacks capital accumulation. Moreover, most of its meager capital fled to Shanghai before the Communists assumed control. As the result of repeated demands made by the present regime, funds held by the people in this area must now be reduced to the minmum. Mindful of this straitened economy the government reduced the allocation to the private sector of joint enterprises and other residents of 1955 National Economic Construction Bonds from

23. Ibid.
24. Ibid.
25. Far Eastern Economic Review, March 25 1954.

4544 53 per cent to 45 per cent in January 1955.[26]
6522 The currency measure instituted in March 1955 will have further reduced what little capital remains.

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26. People's Daily, Peking. January 9, 1955.

2: Gamble S-5 (1926-1933)1954 AF12 North China AF12

$300, his assistant $100, two section and bureau heads $40, five section heads $30, 21 clerks an average of $9.50, and 16 other employees an average of $7. Supplies and miscellaneous expenses were budgeted at $258 per month.

We were not able to secure the magistrate's budget for 1929 from the provincial records nor, of course, was there any record of the amount of income the magistrate and his staff received from their "perquisites". It was generally reported, however, that because of the low salary scale, family and political financial demands, and long established custom, the amounts were at least "generous".

With the establishment in 1933 of the Hopei Institute of Political and Social Reconstruction, the president of the Institute was authorized to nominate the Ting Hsien magistrate. This made it possible for one of the Mass Education Movement staff to be appointed magistrate and for him to fix definite salaries for all hsien employees, to abolish "legalized" commissions, to require special training for all hsien employees, and to effect reforms in the prison, the police, and the militia.

Hsien Finance

It was reported that prior to 1916 there was no regulated plan for controlling the hsien finances. Local organizations needing money would collect and use the necessary funds, but under the general centralized control of the hsien government. In 1916 a Civic Council of private citizens was organized to act as a central bureau for all hsien expenditures. The spending organizations were required to present their budgets to the Council and get the needed funds for them. In 1920 the Civic Council was changed to the Finance Board by order of the Provincial Committee. In 1925 the Board was abolished and its place was taken by a Municipal Council, which was replaced in August, 1928, by the Public Fund Bureau, which was replaced in November, 1928, by the Bureau of Finance. The budget for the operation of the bureau was $3,222 in 1929.

In December, 1928, the Ministry of the Interior organized a Government Planning Commission and made one of its responsibilities the improvement of hsien finance. The Commission, together with the Ministry of Finance, adopted the following Hsien Improvement Plan:

1. All receipts and expenditures were to be under centralized control.
2. Incidental taxes, emergency taxes, etc., all those that were not levied

2: Gamble S-5 (1926-1933) 1954 AF12 North China AF12

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by the National or Provincial Governments, must be approved by the Provincial Finance Bureau.

3. Disbursements must be made according to the budgets and needs of the different departments. If there should be a deficit because of extraordinary conditions the hsien government could ask the provincial government for aid.
4. The finances of the hsien were to be managed by the Hsien Finance Board. It was expected to keep within the adopted budget.
5. No organization except the Finance Board was to be allowed to collect funds.
6. In case of an unexpected decrease of income the Hsien Finance Board was to take action so that the work of the other hsien bureaus would not be interrupted.
7. All authorized established organizations supervising local real property were to be retained.

The following figures give the amounts in the main sections of the hsien budget for the years 1917, 1928, and 1929. These do not cover the entire cost of the hsien government, as the amounts spent for the magistrate's administrative office and for the judicial branch were part of the provincial budget and the money came from the provincial rather than from the hsien treasury.

Hsien Expenditure Budget

	1917	*1928*	*1929*
Kuomintang	–	$ 7,100	$ 16,800
Administration	$ 8,812	14,676	16,338
Police and militia	25,237	22,316	27,584
Education	30,080	37,017	39,349
Construction	1,691	1,472	1,472
Special	894	6,343	6,343
	$66,714	$88,924	$107,886

The amounts for education and construction represent the expenditure for the activities and projects of those bureaus. The operating expenses of the bureaus themselves are included in the figure of administration.

The $16,800 for Party expense was a new item in the budget, for which 1929 was the first full year. It represented the largest increase

2: Gamble S-5 (1926-1933)1954 · AF12 North China AF12

over the 1917 budget. In 12 years the total budget increased 61 per cent, the amount for administration 81 per cent, for education 31 per cent, but for the police and militia only 10 per cent.

Police

The hsien police were reorganized in 1902. At that time the hsien was divided into five districts. In 1912 the name was changed, in line with the new terminology of the Republic, and there was a change in the number and duties of the top police officers. In 1915 there was another reorganization and the hsien was divided into six districts. In each district there was one central police office and from one to four branch offices. The total number of branch offices was 13. There was a police officer and assistant in each district office and an under officer in each branch office. The number of patrolmen was given as 263. Twenty-four of these were mounted police.

The police force was reorganized again in 1928 after the Nationalist forces reached North China. The name was changed to Bureau of Public Safety. The central office force was set up with one chief officer, two section heads and an associate for each, one inspector, a clerk, a treasurer, a porter, two police officers, one for the mounted detachment, an associate for each officer, ten policemen, and ten mounted men. In each of the six district offices there was a headman, a clerk, two police officers, two mounted police, and a varying number of foot police. In the branch offices, there was regularly one police officer and 12 men. The reported expenditure for the police force was $25,237 in 1917, $20,616 in 1928, and $25,884 in 1929.

Militia

The local militia, pao wei t'uan, was put under the Bureau of Public Safety in 1928 and given a headquarters budget of $1,700, but it was organized by the people rather than by the hsien government. The home guard had long been part of the village organization. This new organization apparently was an attempt to put it on a coordinated hsien-wide basis rather than have each village organize independently. The new organization and affairs of the militia were discussed by a meeting of the village heads and their assistants, called together by the magistrate. The six districts for the militia were the same as the six police districts. Each district was divided into five sub-districts. The village

6:Young et. al. E-5 (1928-1929) 1930 AF12 North China AF12

the local school so that the Party gained control of 665
of the school affairs as well as the finance. Unfortunately this additional power was the collapse of the whole organisation. As we have described in Chapter IX a training school for rural teachers was started by the Party, and after three months' training the majority of the graduates were found positions in the various rural schools, but there were not enough positions for all. Those who were not successful in finding a post became discontented and accused the Party members of graft in the placing of the graduates. There was a demonstration and the Party members were driven from the town. At present the Party office is closed, the members have returned to their occupations, and the Party machinery is suspended after only five months of very active work.

4. Public Finance.

As the work of local gvernment has been divided 652 ●
amongst the district government, the village government and the Chamber of Commerce, we find that local finance have been very much mixed up too. There are three different sources of revenue ; taxation levied by the District goverment on grain sales, sale of fruit and vegetables and of live stock, and the toll on pack carts and animals ; from taxation and contributions from the stores ; and the contribution from the Chamber of Commerce, and the Association for the Protection of Green Crops. Fortunately the investigator was able to get posspssion of the book which had been kept by the old Self-government Association, and a detailed analysis was made for the preceding year :

6:Young et. al. E-5 (1928-1929) 1930 AF12 North China AF12

652 TABLE XLV. REVENUE AND EXPENDITURE OF THE SELF-GOVERNMENT ASSOCIATION, SCHOOL, LOCAL GUARDS, AND POLICE STATION

chinese month	revenue (in dollars)	average as 100	expenditure (in dollars)	average as 100
10th, 1927	626.74	131	713.88	148
11th, 1927	571.57	120	592.20	123
12th, 1927	808.97	169	398.32	83
1st, 1928	315.06	66	287.40	60
2nd, 1928	165.56	55	375.96	78
2nd, 1928	409.15	86	318.30	66
3rd, 1928	314.09	66	760.70	159
4th, 1928	369.60	77	364.71	76
5th, 1928	281.50	59	276.24	57
6th, 1928	451.21	94	532.49	111
7th, 1928	1,016.90	2,123	654.76	136
8th, 1928	403.72	84	598.52	124
9th, 1928	487.60	102	419.01	87
Total	6,621.67		6,272.49	
Average	078.59	100	482.50	100

6:Young et. al. E-5 (1928-1929) 1930 AF12 North China AF12

The records were made according to the Chinese calender which has twelve months in ordinary years but thirteen months in the leap year, and as this happened to be a leap year we have thirteen months in the year including two second months, so that the total amount of this year may be a little bit larger than other years. If we substract one month from the total we have twelve months' figures for revenue and expenditure of $5, 743.08 and $5, 789.99 respectively, showing that the total expenditure is slightly larger than the total revenue and must have been made up by loans or other measures. The monthly expenditure is more stable than the monthly revenue because expenses are more or less fixed while the revenue depends upon the sale of farm products which are highly seasonal. The lowest index of revenue goes down as low as 35 in the second months of 1928; on the other hand the highest rises to 2,123 in the seventh month of 1928, whereas the range for expenditure is only from 57 to 159.

We tried to analyse the various items of revenue to see how the contributions were shared among the various sources. The daily tax is a charge made on every store in the town every day; welfare tax is a charge made on the open shops during the market days; the grain tax is charged on the sale of grain in the market, and makes by far the largest contribution. Road tax is charged on carts and animals carrying commodities; fifth and eleventh item are the contributions from the Association for the Protection of Geen Crops in the various villages in the eastern district; school fees

POLITICS

The proposed budget of the financial Committee 652 is as follows :

TABLE XLVIIIA PROPOSED BUDGET FOR 1929

INCOME	Amount	EXPENDITURE	Amount
Help from villages	$868.90	Police Station	
Fruit & Vegetable tax	120.00	Salaries	$ 1,620
Livestock tax	40.00	Equipment	193
Grain tax	1,092.50	Miscellaneous	120
Daily tax	272.90	Financial Committee	
Rent	12.05	Salary	240
Miscellaneous	55.40	Wages	252
		Miscellaneous	120
Total	2,461.70	Total	2,545

In the above budget the items, school and self-government have been dropped. The school now has an independent budget with the road taa as its regular support. The self-government is combined with the police station temporarily because the police head is made also the head of the district. This proposed budget is as a whole much smaller than the expenses and income of the precoding year.